

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
March 14, 2003

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Forest Bowman, Attorney-at-Law
Craig Hartzer, Executive Director
Bruce Kimery, Chief Benefits Officer
Ed Gohmann, Fund Counsel

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(6). No other matters were discussed by the Board in the Executive Session.

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Mary Beth Braitman, Ice Miller
Stephanie Braming, Mercer
Stephanie Rhinesmith, Public Finance Office
Doug Todd, McCready & Keene, Inc.
Scarlettt Ungurean, Mercer

PERF Staff

Craig Hartzer, Executive Director
Diann Clift, PERF MIS Director
David C. Ellis, PERF Financial Office
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Legal Counsel
Leisa Julian, PERF Chief Financial Officer (designate)
Bruce Kimery, PERF Chief Benefits Officer
Lynda Duncan, Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING.

- A. Agenda of March 14, 2003
- B. Minutes:
 - ❑ February 14, 2003 Board of Trustees Meeting
 - ❑ January 10, 2003 Investment Committee Meeting
- C. Year-to-Date Expenses Update.
- D. Guaranteed Fund Rate

I. APPROVAL OF MINUTES.

MOTION duly made and carried to approve the Minutes of the February 14, 2003 Board of Trustees Meeting.

Proposed by: Nancy Turner
Seconded by: Richard Doermer
Votes: 5 for, 0 against, 0 abstentions.

II. OLD BUSINESS.

A. SIRIS Update.

- Ms. Clift noted that PERF continued to meet regularly with Covansys, at Executive and Staff level, to address issues relating to the completion of SIRIS system fixes. There is little tangible evidence of progress. Covansys had committed to resolve 340 system fixes for PERF and TRF prior to June 30, 2003. Covansys had agreed that fixes requested after February 24, 2003 would be in place and in production within 30 days. She noted that PERF was withholding \$1.8 million pending satisfactory completion of work. The Executive Directors of PERF and TRF continue their weekly meetings with Covansys to ensure that progress continues.
- Mr. Hartzer commended Ms. Clift and her colleagues at PERF and TRF for their work on resolution of this problem. Mr. Kimery noted that PERF was relentless in its expectations to receive delivery of a product as requested.
- Mr. Hartzer noted that Covansys would no longer be responsible for implementing legislative updates within SIRIS. PERF was seeking another vendor to carry out the necessary work.

B. Legislative Update. Mr. Gohmann provided a bill status report for items being discussed in the current legislative session that affected public pensions.

C. Benefits Update.

- Reduction of Backlogs.

- ❑ Payment of First Retirement Check. The goal is to make the first payment within 45 – 60 days. This figure is gradually being approached and is now at the 60-day mark.
- ❑ Counseling Appointments. The goal has been achieved and counseling appointments are being carried out within 45 days.
- ❑ Refunds are being processed within 30 days, except where there are issues due to incomplete information.
- ❑ The Fund has received a number of refund applications that are incomplete. After repeated attempts, the necessary information has not been received from the member or employer. In these cases, a letter will be sent to the member advising them that their refund application will be cancelled, unless the member provides the requested information.
- ❑ Staff is still working overtime in order to reduce the level of backlog in retirement applications.
- State Retirement Incentive Plan. The State had received 1,400 early retirement election forms. PERF had received 1,121 requests for estimates, which were computed under two options (normal retirement and retirement under SRIP). Mr. Kimery noted that some members will not retire until the end of June and other members are resigning from State service but are not initiating their PERF retirement.
- Staffing. Four counselors are completing their training and interviews are being held for additional counselor positions.
- Certified Employee Benefits Specialist (CEBS) Program. CEBS training has been offered to PERF and TRF employees. Thirty people have signed up to participate. This consists of a series of classes that, when completed, will give certification as a pension administrator.
- Customer Service/Customer Comment Cards. In addition to the group counseling sessions, comment sheets are now being used for individual counseling sessions. Comments have been very positive. Information on the results be will posted on the 7th Floor (Benefits Department).
- Mr. Birge applauded the good progress being made to reduce backlogs and improve customer service.

III. NEW BUSINESS.

- A. Investment Committee Report. The Investment Committee meeting had met that morning and had made the following recommendations for the Board's approval:
 - 1. Commingled Funds for Emerging Markets. The Committee recommended authorization to use investment managers' commingled funds in order to provide

broader representation to emerging markets, to decrease the benchmark risk, and to improve manager implementation efficiency. It was noted that the use of commingled funds would give PERF greater diversification at a lesser cost than market registration for India, Taiwan and Russia.

MOTION duly made and carried to approve the use of emerging market commingled fund exposure.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions

2. Global Growth Request for Proposal. The RFP for Global Core and Global Growth managers had been issued on August 5, 2002. PERF had received 46 responses. Invesco had been awarded the Global Core assignment but there had been no clear candidate for the Global Growth assignment. Staff requested that the Global Growth RFP process be reopened between April 1 and April 15, 2003 in order to review additional responses before bringing a recommendation before the Investment Committee.

MOTION duly made and carried to reopen the Global Growth RFP.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
All in favor. Five in favor, 0 against, 0 abstentions.

- B. Audit and Budget Committee. The entire Board had been present at the meeting of the Audit and Budget Committee held that morning, and a record of the Committee's discussions is provided in the Minutes of that meeting.

C. Staff Appointments.

1. Chief Financial Officer.

MOTION duly made and carried to authorize Mr. Hartzer, Executive Director, to hire Leisa Julian as PERF's Chief Financial Officer.

Proposed by: Richard Doermer
Seconded by: Nancy Turner
Votes: Five in favor, 0 against, 0 abstentions.

2. President of Market Capital Venture LLC. This is the holding company for the PERF premises.

MOTION duly made and carried to appoint Craig Hartzer as President of Market Capital Venture LLC and to appoint Bruce Kimery to be Secretary, Market Capital Venture LLC.

Proposed by: Jonathan Birge
Seconded by: Nancy Turner
Votes: Five in favor, 0 abstentions, 0 against

- D. Guaranteed Fund Rate. After lengthy deliberation, the Board members agreed to the recommendation to reduce PERF's Annuity Savings Account Guaranteed Fund rate to 7.25% (currently at 7.75%). This was considered to be a fair rate for PERF's members, in consideration of the economic climate and in comparison to other interest rates. PERF is embarking upon a new asset liability study. New actuarial valuations will be set by July 1, 2003. It was noted that the TRF rate would probably be 6.5% (now at 7%). Discussion included the following points:

- It was anticipated that markets could experience several more years of negative or low returns. The economy is at a 40-year low for interest rates.
- For most of PERF's members, this represents a long-term investment. Approximately 85% of PERF members have their Annuity Savings Account balances invested in the Guaranteed Fund. PERF's goal is to do the best for its members, while preserving the actuarial soundness of the Fund.

MOTION duly made and carried to adopt a Guaranteed Fund Rate that results in an annual yield of 7.25%, effective July 1, 2003 for one year.

Proposed by: Garland Ferrell

Seconded by: Jonathan Birge

Votes: Three in favor, 0 against, two abstentions (PERF Fund members).

- E. Record-keeping. The Board was asked to consider a recommendation to issue a Request for Proposal (RFP) for a record-keeper for PERF's ASA options. Legislation is being discussed that could mandate PERF to offer members the possibility of obtaining daily valuations of their ASA account earnings. Using current SIRIS configurations, there is no capability to offer daily valuations. PERF applies an earning rate to investments on a quarterly basis. It was noted that 85% percent of PERF's members are in the Guaranteed Fund, and in theory, this would reduce the number of members that would require daily valuations. However, it was considered that the ability to offer this service was an important factor if PERF wished to offer its customers a world-class service using 21st Century technology. Mr. Hartzer asked Staff to provide a cost estimate to include cost of the actual system and percentages of cash amounts involved in the proposal.

MOTION duly made and carried to authorize the Staff to compile the parameters for an RFP and to bring it back to the Board.

Proposed by: Garland Ferrell

Seconded by: Richard Doermer

Votes: Five in favor, 0 against, 0 abstentions

- F. Investment Advisory Committee. This item was deferred for discussion to a future meeting.

IV. REPORT OF EXECUTIVE DIRECTOR. Report of Executive Director.

- Staffing Plan. Salary adjustments will be made with respect to bringing PERF salary scales into alignment with those of the Teachers' Retirement Fund (TRF). Pay increases will take effect in the March 26, 2003 paychecks. It was noted that a number of the PERF positions were being paid at rates substantially below those of TRF. It is anticipated that this initiative will contribute to PERF being able to retain qualified workers and to recruit quality workers.
- Savings. All areas are being reviewed for potential cost savings.
- Internal Controls. The procedure for processing manual checks is under review. The computer system is configured so that there is only one check run per month for retirees. In order for a member to be paid on the 15th of the month, all documentation must be in place by the second workday of the month. If this deadline is missed, the result can be a 60-day wait before payment is received. Hardship cases are dealt with by generating manual checks that are mailed out 3-4 times per week. There is a scheduled run once each month for refund checks (towards the end of the month). The goal will be to implement additional check runs as part of PERF's regular business practice.
 - ❑ In addition, PERF is instituting additional internal controls to ensure that checks are audited and issued promptly. The Board will be updated on a regular basis on PERF's performance standards, improvements in internal controls and the development of quantitative measurements.
 - ❑ Mr. Ferrell asked if the members could be mandated to receive checks by direct deposit. This would save time and would be more cost effective.
- Contract Review. All contracts are being reviewed. Policies and procedures are being implemented to ensure that the contract process becomes more efficient and effective. Once drafted, they will be presented to the Board for approval.
- Computer Security. Discussions are underway with two IT security consulting firms that had been recommended by Crowe Chizek (Forensic Auditors).
- Outreach. As part of a PERF Outreach program, Mr. Hartzer had visited members of the Retired Indiana Public Employees' Association (RIPEA), the American Federation of State, County, and Municipal Employees (AFSCME), and the UNITY Team. During discussions, he had observed that there seemed to be no real crisis of confidence in PERF by its members. The priority of members was to receive a world-class service from PERF, to receive their retirement checks on time, and to receive a friendly service (dignity, respect, empathy and quality). In addition, Mr. Hartzer had met with members of the State Auditor's Office, and would meet with members of the Indiana Association of Cities and Towns (IACT) and the Association of Indiana Counties (AIC).

- Strategic Planning Process. Mr. Hartzler noted that the PERF Staff had embarked on a strategic planning process that would aim to establish a foundation for work in the next 5 to 10 years.
- Performance Management. Performance standards are being developed and will be measured with staff being held accountable for their performance.

V. NEW BUSINESS.

- Line-of-Duty Death Determination.

MOTION duly made and carried to approve a line-of-duty death benefit claim in the matter of David W. Borgmann, an INDOT employee, who was killed on January 16, 2003 while on duty.

Proposed by: Connie Thurman
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions

- VI. DATE OF NEXT MEETING. The next meeting of the PERF Board of Trustees will be held on Friday, April 11, 2003.

VII. ADJOURNMENT.

MOTION duly made and carried to adjourn.

Proposed by: Nancy Turner
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions.